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Director of
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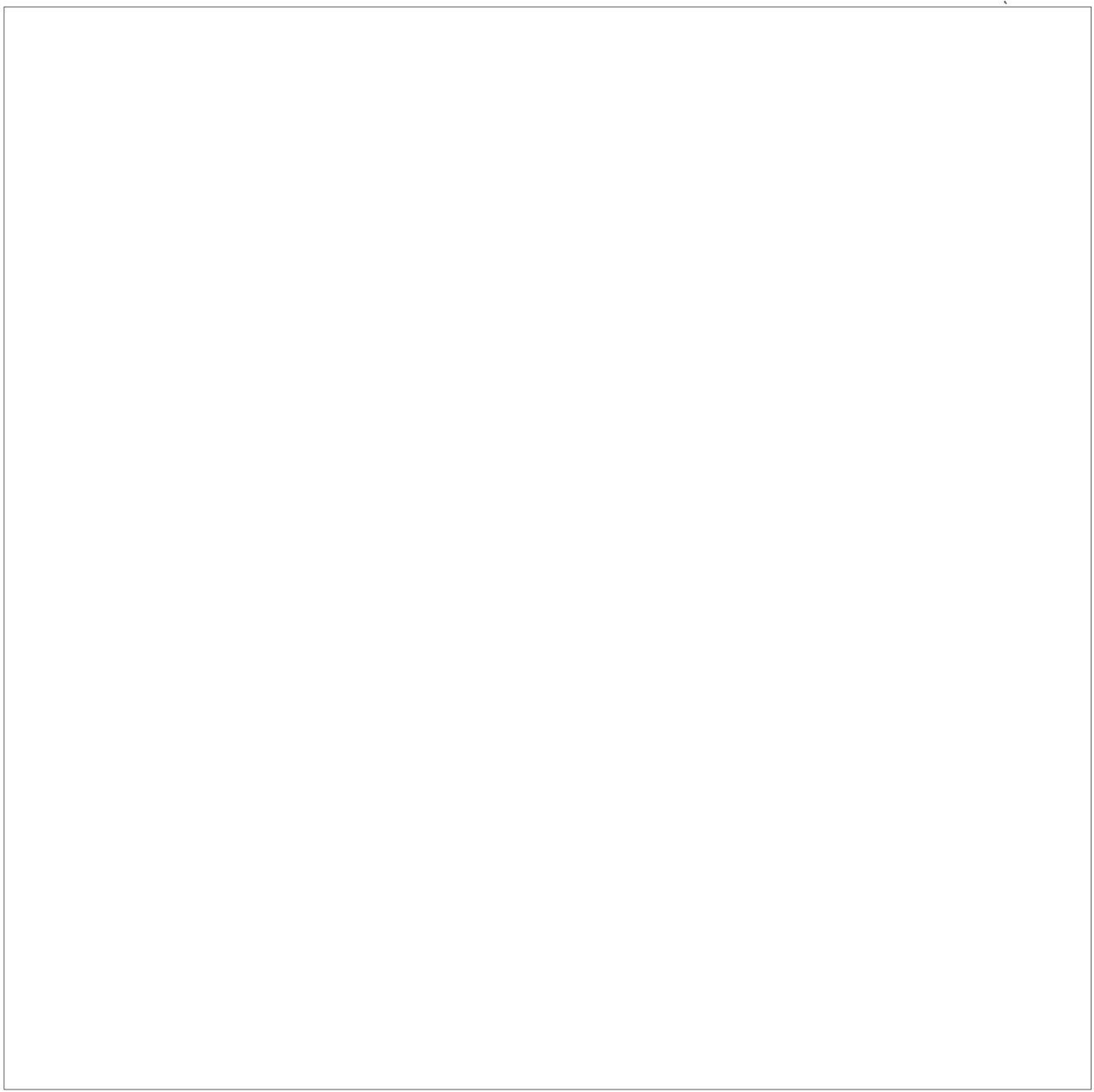
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USSR-LEBANON: Hostage Situation

Moscow is knocking on all doors to obtain the release of the remaining three Soviet hostages, but the group holding them now says it will not let them go.

The Soviet Chargé in Beirut met Saturday with Druze leader Junblatt and Amal chief Barri, and [] the Soviets have also approached Iraq and Iran for help.

Meanwhile, a caller who said he represented the group holding the hostages told a Western news agency yesterday that the terrorists would not release the hostages despite the cease-fire in Tripoli. He said the diplomats would not be freed until the US and the USSR agreed to end the Lebanese civil war. The caller appealed to the terrorists holding the American and French hostages not release their captives either. []

Comment: General Secretary Gorbachev's purposefully vague response to a question about the situation during his news conference in Paris on Friday was consistent with the Soviet line since the crisis began of avoiding public threats of retaliation. The new demands, however, will add to Moscow's frustration with the Lebanese problem. []

Despite the cease-fire in Tripoli, the terrorists' demand for the withdrawal of Syria and its surrogates has not been met. Media reports that Syrian troops are disarming the militias in Tripoli almost certainly will reinforce the kidnapers' unwillingness to release their captives. In any event, the extremists are aware that, if they were to free the Soviets, they would be open to retaliation. []
-CIA, DIA, NSA-

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**ZIMBABWE-
SOUTH AFRICA:**

Aid to Insurgents

Zimbabwean Prime Minister Mugabe is increasing his support to the Pan Africanist Congress, a minor South African insurgent group that is a rival of the African National Congress, [redacted]

Mugabe was instrumental in arranging a visit to China and Yugoslavia by the group's president late last month, and he is trying to unite its factions. His government recently provided a fourth and final shipment of arms and ammunition to PAC activists in neighboring Botswana. [redacted]

Meanwhile [redacted] South African agents are reconnoitering ANC properties in Harare and intend to make all South African liberation groups in Zimbabwe priority targets for punitive attacks. [redacted]

Comment: The Pan Africanist Congress is desperate to demonstrate its military capabilities and establish itself as an alternative to the African National Congress. Mugabe, long suspicious of Moscow's close ties to the ANC, probably hopes to revitalize the PAC as an effective counterweight to Soviet influence within the South African liberation movement. His increased political and military support for the PAC, however, heightens the risk of provoking direct South African retaliation against Zimbabwe. [redacted]

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JAPAN-US: Efforts To Reduce Trade Friction

The high level of the delegation from Japan's ruling Liberal Democratic Party in Washington this week points to growing Japanese worry about possible US Congressional action on restrictive trade legislation. The party last week scrambled to work out a 17-point plan to increase domestic demand—including housing incentives and tax cuts—to keep the mission leader, party Vice President Nikaido, from arriving emptyhanded. Nikaido reportedly will propose establishing regular bilateral parliamentary consultations in his meetings with US leaders and officials. [REDACTED]

Comment: Japanese officials see the mission as a major effort to respond to protectionist pressures and pave the way for Prime Minister Nakasone's meeting with President Reagan later this month. Nikaido expects a difficult time and probably will steer clear of detailed talks on specific problems. He will instead reaffirm Japan's support for free trade and stress the Liberal Democratic Party's domestic political problems as it faces national elections next year.

[REDACTED]

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USSR-US: Soviet Position on Wheat Purchases

The head of the Soviet grain-buying agency [] is recommending that Foreign Trade Minister Ivanov not raise the Soviet failure to meet its wheat purchase commitment under the US-Soviet Long-Term Grain Agreement at the grain consultations at midmonth. []

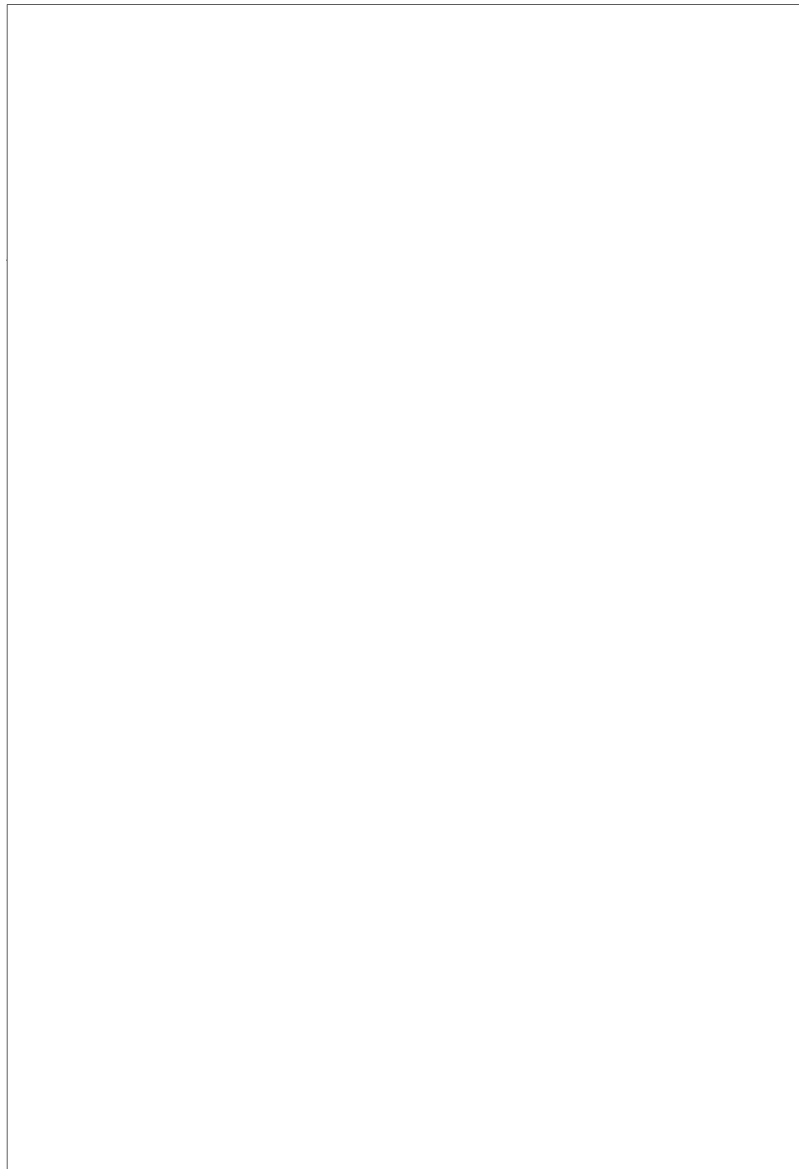
[] They will argue that the treaty phrase "market price prevailing" refers to world prices, not US prices and therefore that they are not obliged to buy wheat at artificially high US prices. []

Comment: Moscow bought 1.1 million tons less than the 4 million tons of wheat specified for the second year of the agreement. Its last purchase of US wheat was in March of this year, and Soviet officials have been complaining about high prices since then. At the consultations, Moscow will probably argue that the more than 15 million tons of US corn bought for shipment between October 1984 and September 1985—at least 12 million tons more than required—should more than compensate for the failure to buy the remaining wheat. Soviet concerns about US market prices and preferential wheat sales to Egypt, coupled with subsidized wheat offered by major competitors, suggest further current Soviet purchases of US wheat are unlikely. []

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PORTUGAL-WEST GERMANY: Frigate Program

[redacted] West German and Portuguese officials have broken the stalemate over financing the Portuguese frigate program by agreeing to increase each nation's financial contributions. The new agreement has not closed the gap between total costs and Portuguese allocations for the program, but Lisbon expects to finance the difference through aid contributions from the Netherlands, which is providing electronic equipment for the ships, and additional loans. The Portuguese Council of Ministers has authorized the signing of a contract for three frigates, which are to be built in West Germany at a cost of \$800-900 million and are similar to several built for Argentina. [redacted]

Comment: The negotiations may still collapse if the Netherlands reneges on its contribution or if the Portuguese are unable to borrow additional funds. The new frigates will be equipped with shipboard and helicopter-launched antisubmarine weapons and will increase the ability of the Portuguese Navy to fulfill its antisubmarine warfare mission assigned by NATO and to maintain a deepwater capability. The program also will provide needed employment in West German shipyards. [redacted]

EASTERN EUROPE: Setback in Hard Currency Trade

Eastern Europe's surplus in its hard currency trade fell in the first half of the year to half that of the same period last year, reversing the trend of steadily improving trade balances over the last several years. Even with the growth in demand from the recovery in Western Europe, East European exports fell by 4 percent. Imports rose by 6 percent as Eastern Europe increased purchases of energy and raw materials. [redacted]

Comment: Eastern Europe's deteriorating trade performance, a result of harsh winter weather and declining commodity prices, has forced Bulgaria, Hungary, and Romania recently to seek loans. At the same time several East European countries have increased their exports to the USSR, possibly at the expense of the availability of goods to export for hard currency. The declines in exports to the West will complicate Poland's struggle to make debt payments due later this year and Yugoslavia's attempt to meet foreign reserve targets mandated by the IMF. Most East European regimes will need to improve export performance soon to avoid the difficult choice of either trimming imports or seeking new credits. [redacted]

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In Brief

Americas

— **Canadian** defense policy review may recommend reduction in NATO roles . . . seriously considering as one option major cuts in its European forces . . . would free money to replace aging destroyer fleet in 1990s.

— **Belizean** Government responding to US pressure to eradicate marijuana . . . widely publicized test spray program reportedly to begin in mid-October following Queen's visit . . . unlikely to reduce fall crop drastically as farmers probably will harvest early.

Middle East

— **Iranian** Deputy Foreign Minister Mansuri touring five **South American** states . . . promoting economic relations, especially use of barter arrangements to secure materiel . . . portfolio indicates he is also proselytizing among local Muslim communities.

Western Europe

— Partial returns in **Portuguese** legislative election show Social Democrats leading with 30 percent . . . Socialists follow with 21 percent . . . whatever coalition comes out of election will be unstable and dependent on outcome of presidential election next January.

— **Finnish** Government urging companies to cooperate with US, COCOM export controls on sales to **Soviets** . . . chief of Finland's internal security service emphasized issue at recent seminar with firms.

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East Asia

[redacted] **French**
contract for Guangdong nuclear power plant may be delayed up to
three years . . . Beijing pressuring France for better financial terms
. . . may reopen competitive bidding. [redacted]

- **Japanese** Economic Planning Agency announced last week
defense spending will remain under 1 percent of GNP for fiscal
year ending March . . . projected GNP for 1985 increased by long-
anticipated statistical revisions. [redacted]

Antarctica

- Biennial **Antarctic** Treaty Consultative Meeting to begin today in
Brussels . . . **China** likely to become 17th consultative nation . . .
Uruguay also to be considered, but case not as strong . . . nations
decide Antarctic policy. [redacted]

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Special Analysis

SOUTH AFRICA: Black Economic Leverage

The economic power of blacks has grown dramatically in recent years. Black consumer spending now accounts for 40 percent of total retail sales, and black workers comprise 70 percent of the economically active population. While black economic leverage will continue to grow, it is unlikely to represent a major threat to the government as long as blacks are unable to organize and sustain lengthy, nationwide strikes involving key industries.

For years blacks have used the power of the purse to obtain economic concessions and draw attention to political grievances. Strikes organized by labor unions have been the most effective, although blacks have boycotted white-owned businesses. Boycotts and strikes often have been used jointly. For example, black consumers have boycotted products of companies involved in labor disputes or have combined work boycotts and consumer boycotts to protest racial policies.

Recent Actions

The latest round of consumer boycotts began late last year and were intended to force several companies to reinstate workers fired in earlier strikes. They had considerable support and achieved their narrow objectives. This inspired other boycotts, often with broad political goals, such as ending the state of emergency or freeing Nelson Mandela.

Although most strikes are still linked to economic goals, blacks increasingly are using short work boycotts to dramatize their anger over Pretoria's racial policies. A series of local boycotts in September and October last year culminated in a two-day general strike in November by some 500,000 workers in Transvaal Province who demanded the withdrawal of troops and police from black townships, release of political prisoners, and a freeze on rents. Despite the wide participation, Pretoria made no concessions.

Black support for these actions has been strongest where effective grassroots organizations or unions can publicize the events in advance. In many cases, gangs of teenagers have enforced participation by assaulting blacks who report for work or patronize white-owned shops. Other protests, however, such as the consumer boycott that was called off this week in Natal Province, were not able to overcome the difficulties posed by intergroup rivalries, fear of being fired, or unwillingness to pay the high cost of goods available in black-owned shops.

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White Response

Pretoria recognizes that a lengthy coordinated strike in the mining and manufacturing sectors would cause serious economic damage; it has been quick to arrest leaders and crack down on unions that stray too far from narrow economic issues. Although an increasingly militant rank and file has pushed some unions to make political demands, most union leaders know the risks and avoid serious confrontation. Even the tentative steps that some unions have taken recently to become politically active may collapse under government pressure.

With the unemployment rate among blacks above 25 percent, the threat of wholesale firings continues to inhibit protests. Some 6,000 blacks were fired from a corporation after a work boycott last November. Last month the threat of mass dismissals broke a miners' strike.

Consumer boycotts—even widely supported ones—generally have evoked a less harsh response from Pretoria because they tend to be local, affect only a small number of whites, and have little impact on the national economy. The effect on local business is more pronounced. In some areas where white businesses have lost one-third or more of their usual sales, boycotts have caused local white businessmen to lobby for racial change; more often, white businessmen have cut supplies to black-owned competition, and police have harassed and even arrested some black shopowners.

Outlook

Blacks will continue to rely on boycotts and work stoppages to make largely symbolic political statements. As long as these actions remain localized, Pretoria is unlikely to use its security apparatus to suppress them completely. Moves to politicize labor disputes or launch lengthy nationwide strikes, however, will be dealt with harshly.

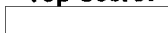
Even if blacks were able to strike successfully against key industries, Pretoria is not likely to grant political concessions. Whites have the economic and security resources to outlast blacks in sustained economic warfare. Moreover, the government does not want to be seen as caving in to pressure from blacks.

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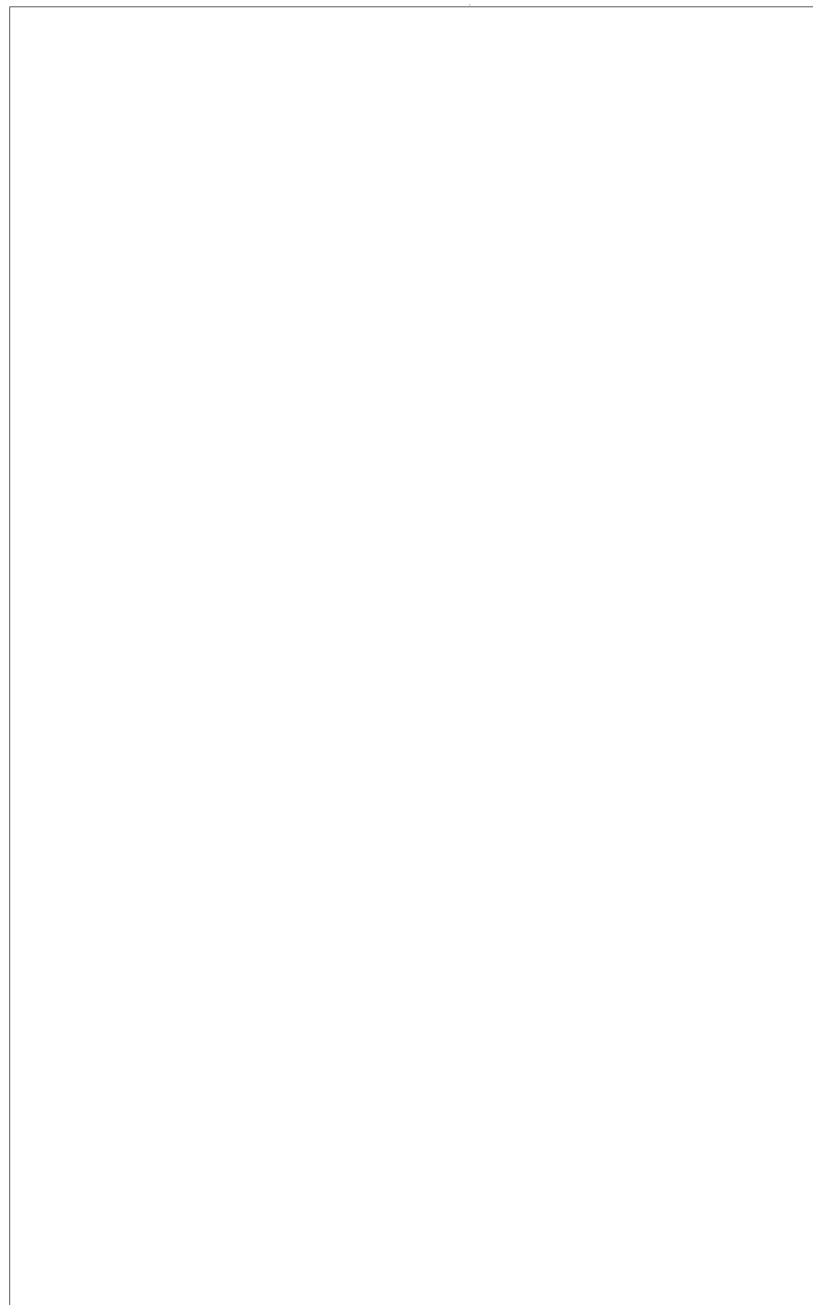
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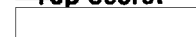
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Special Analysis

GUATEMALA:

Economic Policy and the Election

With only a month to go before national elections, Chief of State Mejia is making short-term economic adjustments to reduce public unrest and keep the transition to civilian rule on track. The replacement this week of economic ministers who advocated unpopular austerity measures underscores his intention to avoid contentious policy initiatives. Neither of the major presidential contenders appears likely to come to grips quickly with the severe problems the new administration will inherit when it takes over in January.

Following widespread protests against economic measures last month, Mejia raised public-sector wages, maintained consumer subsidies, and enacted price controls. These measures, however, fell far short of worker demands, provoked grumbling among businessmen, and further eroded government finances. A visiting IMF team predicts the wage increase will accelerate the already unprecedented inflation, which is now expected to reach 40 percent this year.

The government's failure to make payments to petroleum suppliers has aggravated Guatemala's economic plight. Some parts of the country already are out of fuel, causing disruptions in bus and trucking services. Fuel shortages are causing long gas lines and have led to the imposition of a strict rationing program, but government officials remain opposed to eliminating costly fuel subsidies.

The Guatemalan central bank estimates a foreign exchange shortfall of \$83 million for the remainder of 1985, largely as a result of the failure of exporters to surrender foreign earnings at the official rate. the bank has recommended devaluation, but Mejia thus far has refused; Guatemala's currency had been maintained at parity with the dollar for 60 years. the foreign exchange gap will force the bank to miss debt service payments and that it will have to resort to inflationary purchases of dollars in the open market.

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Policy Paralysis

Economic officials had been urging stabilization measures—including devaluation—to pave the way for an IMF agreement and to relieve the burden on the new government of making unpopular adjustments. Mejia objected, however, and last week replaced the Minister of Finance and the central bank president with less competent associates to reduce policy conflicts. This assures that no significant economic stabilization measures will be taken under Mejia during his last three months in office. [redacted]

The major presidential candidates have criticized the government but have failed to put forward comprehensive economic plans or to build public support for needed austerity measures. The leading candidate, Vinicio Cerezo Arevalo of the Christian Democratic Party, is strongly opposed to devaluation. [redacted] he would solve foreign exchange problems with strict controls on major export crops. The other front-runner, National Centrist Union leader Jorge Carpio Nicolle, is more likely to accept devaluation as a way to gain badly needed foreign economic assistance, although he is not making it part of his platform. [redacted]

Outlook

Over the next three months, the economy is likely to experience continued fuel shortages, rapid inflation, and further labor unrest because of Mejia's delaying tactics. The leading candidates appear to be counting on large infusions of foreign aid after the election to stem the economic decline. Most of the foreign assistance, however, will be conditioned on difficult adjustments, such as currency devaluation, tax increases, and reduced consumer subsidies. Mejia's posture and actions will make such measures more economically painful and politically unpalatable for the new administration. [redacted]

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